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Agricultural Situation Oilseed Situation Update

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Report Highlights:

China's MY09/10 domestic soybean production is estimated 1 MMT lower than the previous year, while rapeseed production is estimated to increase by 1.2 MMT. Soybean imports in MY09/10 are forecast to decrease moderately because of high carry-in stocks for both soybeans and rapeseed.

Executive Summary:

China's MY09/10 domestic soybean production is estimated 1 MMT lower than the previous year, while rapeseed production is estimated to increase by 1.2 MMT. Soybean imports in MY09/10 are forecast to decrease moderately because of high carry-in stocks for both soybeans and rapeseed.

General Information:

MY09/10 domestic soybean production expected to decrease by 1.1 MMT

Post's revised forecast for MY09/10 Chinese soybean production is 14.5 MMT, down by 1.1 MMT from the previous forecast of 15.6 MMT (GAIN9030). This is nine percent lower than the estimated 16 MMT for MY08/09. The forecast production decrease is mainly attributable to a decrease in the planted area and a lower yield. As reported in GAIN 9030, soybean planted area decreased in the key production province of Heilongjiang in response to reduced returns from soybeans following the price slump for oilseed products in mid-2008. In the 2009 China Grain and Oilseed Market Analysis Conference held on September 19-20 in Harbin, Heilongjiang Province, industry insiders generally agreed that the 2009 domestic soybean production is down significantly because of reduced planted area and poor weather conditions during key growth periods. In the leading soybean producing province, Heilongjiang, the emergence of soybeans was delayed by drought in spring, the growth was affected by wetness and lack of sunshine in summer, and the late maturation of the crop was hurt by low temperatures and an early frost in autumn. As a result, yield is expected to suffer. One senior manager at one of the largest crushers in Heilongjiang said the 2009 soybean crop for the province is expected to decrease by 3 MMT based on these conditions.

The September report by the China National Grain and Oils Information Center (CNGOIC) estimated that China's 2009 soybean production would be 14.5 MMT based on planted area of 8.8 MHa. This is 1 MMT lower than their previous year's estimate of 15.5 MMT (based on planted area of 9.1 MHa). Industry sources indicated that CNGOIC's revised estimate is based on a field trip to Heilongjiang conducted at the end of August.

Based on a similar trip to Heilongjiang in mid-August, Post estimates that the 2009 soybean production for Heilongjiang will be 10 percent smaller than the previous year. According to meteorological reports, a frost and cold spell hit the north part of Heilongjiang, the east part of Jilin and Inner Mongolia from September 18 through 23. This unfavorable weather is expected to impact the maturity of the soybeans.

Rapeseed Forecast Increased

According to CNGOIC, 2009 domestic rapeseed production is estimated at 13.5 MMT based on increased planted area of 7.2 MHa. This is 12 percent (for production) and nine percent (for planted area) higher compared to the previous year. Various industry sources concurred that rapeseed planting increased in major rapeseed producing provinces. However, they believe that the official reports of an even higher planted area increases are overstated. Industry sources report that planting intentions were somewhat affected by the sharp fall of rapeseed products in late 2008. Post forecast MY09/10 rapeseed production at 13 MMT based on planted area of 7 MHa, ten percent higher than the estimated 11.8 MMT in MY08/09.

MY09/10 soybean imports likely affected by the 7 MMT state reserves

In MY08/09, the Government of China (GOC) purchased more than 7 MMT of the domestic soybean crop in North East provinces at price relatively higher than the market in an effort to protect farmer income. However, a side effect of this policy was that local small to medium sized crushers in the North East Provinces did not operate most of the season because of lack of soybeans. The GOC began to sell the purchased soybeans through public auction at the end of July. However, the auctions resulted in few transactions because of the high price (less than one percent of auctioned volume was sold). According to industry sources, 30,000 MT of state soybean reserves were sold at price of RMB 3,772/MT (or \$555/MT) in the 8th soybean auction held on September 9. This accounted for about six percent of the 500,000 MT in this auction. In the 9th and 10th auction held on September 16 and 23, out of the 500,000 MT available, only 15,000 MT was sold. Industry insiders said traders/crushers hesitated in buying the auctioned soybeans because of the high price and the short time left before the new crop comes to market. It is likely the GOC will continue to try to sell the state reserve when they consider the market price increases. However, if the price for the MY09/10 crop remains low, the GOC will also have to rotate its reserve for the new crop. This stocks level is unprecedented in soybeans in China and is causing the GOC to re-evaluate its thinking on stocks policy and government assistance to the soybean sector. However, observers have not yet unraveled the question on what lessons China will take away from the current situation. Thus, this unusually large overhang of government stocks will impact the market in some way in MY09/10 but it depends on the GOC tolerance for maintaining the stocks and prices in the Northeast provinces.

Recently, the GOC has also offered a RMB 210 per ton subsidy on 2MMT soybean for crushing. Thus far, there has been little interest from Chinese industry in this program.

According to CNGOIC, as of September 25, 2009, the GOC purchased 3.8 MMT of MY09/10 domestic rapeseed for the state reserve (based on a 4 MMT purchase plan). On September 27, 2009, the GOC announced to purchase another 333,000 MT of rapeseed oil for state reserve (equivalent to 1 MMT of rapeseed). The purchase of rapeseed/rapeseed oil was aimed at protecting the farmer's income and maintaining incentives for planting oilseed crops.

New initiatives to boost domestic oilseed production

In the National Peanut Production Technology Exchange Conference held this September by China's Ministry of Agriculture re-emphasized the importance of peanut production, especially because of its high oil content. Currently, MOA is advocating that the GOC to provide seed subsidy to peanut producers beginning 2010. Peanut planted area is likely to expand in the coming years in part due to this subsidy. According to MOA's peanut development report, total peanut production is expected to reach 19 MMT by the year 2015.

China's State Forest Administration (SFA) recently established 100 Tea-oil Camellia production bases, mainly in Hunan and Jiangxi Provinces. Farmers will receive a subsidy of \$441 per hectare for planting camellia trees. The SFA has approved the Camellia Production Plan for Jiangxi Province and will appropriate \$2.7 million to build demonstration bases. Camellia oil is sold household cooking and other human consumption purposes, as it is considered to be a "healthy oil."